

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6578
BILL NUMBER: HB 1362

NOTE PREPARED: Dec 15, 2010
BILL AMENDED:

SUBJECT: Various Utility Matters.

FIRST AUTHOR: Rep. Grubb
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill requires the Indiana Utility Regulatory Commission (IURC) to consider in the rate base of a public utility that complies with certain renewable energy standards (RES) one-half of any capital expenditures made by the public utility to extend gas or electric service to a customer that produces biofuels. It requires the IURC to provide certain financial incentives for implementing electric line facilities projects to electricity suppliers that comply with a certain RES. The bill requires electricity suppliers to comply with an RES by specified dates. It provides that an electricity supplier that does not comply with a higher RES is not eligible for certain financial incentives related to renewable energy development. It also requires the IURC to encourage the use of American-made products in certain utility programs.

Effective Date: Upon passage; July 1, 2011.

Explanation of State Expenditures: *Indiana Economic Development Corporation (IEDC):* The bill provides that the IEDC, in consultation with the IURC, will develop a strategy to attract renewable energy manufacturing and assembly facilities to Indiana. The existing level of resources available to the agency should be sufficient to implement these provisions.

IURC: This bill will increase the administrative expenditures of the IURC. The amount of the increase is indeterminable and will depend on administrative decisions made by the IURC in implementing the renewable energy standards in this bill. The bill will also require the IURC to amend rules and procedures related to consideration of public utility rate adjustments for cost recovery.

Any increase in expenditures could be offset to the extent that the IURC imposes a monetary penalty on an electricity supplier for noncompliance with the RES established in the bill. The bill provides for a penalty

equal to the number of megawatt hours of electricity that the electricity supplier was required to, but failed to, supply, multiplied by \$25.

State & Local Utility Expenditures: This bill could increase expenditures by state agencies and local units for utilities to the extent that the provisions allowing for cost recovery would increase utility rates. The overall impact on expenditures is indeterminable.

Explanation of State Revenues: *Utility Rates:* It is estimated that utility rates could increase under the bill due to the provisions in the bill allowing for reasonable and necessary cost recovery for electric line facilities projects, qualified utility system expenses, compliance with renewable energy standards in the bill, and the purchase of renewable energy credits.

To the extent that utility rates are affected by the provisions in this bill, there will be an impact on Sales Tax, Utility Receipts Tax (URT), and Utility Services Use Tax (USUT) collections.

Taxes: The rate for both the URT and USUT is 1.4%. The URT is calculated on the gross receipts of all entities providing the retail sale of utility services in Indiana. The USUT is imposed on the retail consumption of utility services in Indiana. Both the URT and USUT are deposited in the state General Fund. Sales Tax revenue is deposited in the state General Fund (99.178%), the Public Mass Transportation Fund (0.670%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Background Information on Renewable Energy Standard - This bill establishes an incentive program to allow an electricity supplier that complies with certain renewable energy standards to recover costs associated with any capital expenditures made by the electricity supplier. As used in this bill “electricity supplier” means a public utility (as defined in IC 8-1-2-1) that furnishes retail electric service to the public. The terms do not include municipally owned utilities.

In order to qualify for a financial incentive, an electricity supplier must supply electricity that is generated from renewable energy resources to Indiana customers as a percentage of the total electricity supplied by the electricity supplier to Indiana customers during a calendar year. The bill specifically lists energy that is defined as renewable energy. The bill provides that an electricity supplier who elects to comply with *Schedule 1* is eligible for financial incentives:

Schedule 1 -

- (1) Not later than the CY ending December 31, 2012, at least 4%.
- (2) Not later than the CY ending December 31, 2014, at least 7%
- (3) Not later than the CY ending December 31, 2017, at least 10%.
- (4) Not later than the CY ending December 31, 2022, at least 15%.
- (5) Not later than the CY ending December 31, 2027, at least 20%.

If the electricity supplier fails to comply with *Schedule 1*, the electricity supplier is no longer eligible for financial incentives and must comply with the schedule set forth in *Schedule 2* beginning in the compliance year in which the electricity supplier failed to comply with the schedule set forth in *Schedule 1*. The IURC would impose a monetary penalty on the electricity supplier for noncompliance with this provision. The penalty is equal to \$25 multiplied by the number of megawatt hours that the electricity supplier was required to but failed to supply.

However, an electricity supplier is not required to comply with either schedule if the cost of compliance would result in an unreasonable increase in rates to its customers. The bill provides that the IURC may refund all or part of the penalty paid by an electricity supplier in a calendar year if the electricity supplier achieves compliance by the end of that calendar year.

Schedule 2 -

- (1) Not later than the CY ending December 31, 2012, at least 3%.
- (2) Not later than the CY ending December 31, 2017, at least 6%.
- (3) Not later than the CY ending December 31, 2022, at least 10%.
- (4) Not later than the CY ending December 31, 2027, at least 15%.

If an electricity supplier exceeds the applicable percentage in a compliance year, the electricity supplier may carry forward the amount of electricity that exceeds the applicable percentage and is generated from renewable energy resources in an Indiana facility to comply with the requirement in either or both of the two immediately succeeding compliance years.

Explanation of Local Expenditures: See *State & Local Utility Expenditures* section under *Explanation of State Expenditures*.

Explanation of Local Revenues: See *Explanation of State Revenues*.

State Agencies Affected: IURC, IEDC; All.

Local Agencies Affected: All.

Information Sources:

Fiscal Analyst: Diana Agidi, 317-232-9867.